

FITZGERALD PUBLIC SCHOOLS

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2008**

FITZGERALD PUBLIC SCHOOLS

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2008**

FITZGERALD PUBLIC SCHOOLS

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

December 5, 2008

Board of Education
Fitzgerald Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Fitzgerald Public Schools*** ("the District"), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Fitzgerald Public Schools***, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 5, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on Pages 3 - 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ***Fitzgerald Public Schools*** basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Troy, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

FITZGERALD PUBLIC SCHOOLS

Management's Discussion and Analysis

As management of *Fitzgerald Public Schools*, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights

- On a district-wide basis, net assets were \$39.4 million at June 30, 2008 compared to \$37.9 million at June 30, 2007, an increase \$1.5 million.
- The fund equity balance of the general fund, the District's primary operating fund, decreased approximately \$0.4 million to \$12.3 million at June 30, 2008 as compared to the same date last year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

District-wide financial statements. The *district-wide financial statements* are designed to provide readers with a broad overview of the District's finances. The statements are presented on a full accrual basis, which is the primary accounting method used in private industry.

The statement of net assets presents information on all of the District's assets regardless if they are available for current use or legally restricted, and all (short-term and long-term) liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the district-wide financial statements report activities of the District that are principally supported by property tax collections and state aid. The activities of the District include instruction, support services, community service, food service, athletics and child care. The District has no business-type activities as of and for the year ended June 30, 2008.

FITZGERALD PUBLIC SCHOOLS

Management's Discussion and Analysis

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same activities that are reported in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a district's near-term financing requirements.

The focus of governmental funds is narrower than that of the district-wide financial statements. Therefore, it is useful to compare the information presented for governmental funds with similar information presented for activities in the district-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The District maintains ten individual governmental funds. Information is presented separately in the governmental fund statements for the general, and capital projects funds, each of which are considered to be a major fund. Data from the other eight governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Supplemental Information section of this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund herein to demonstrate compliance with that budget.

Proprietary funds. The District maintains an Internal Service fund, which is a type of proprietary fund. An Internal Service Fund is an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses this fund to account for the provision of compensated absences relating to unused sick and vacation days and certain retirement payments. Because this service is solely for the benefit of the governmental functions, it has been included within governmental activities in the district-wide financial statements.

FITZGERALD PUBLIC SCHOOLS

Management's Discussion and Analysis

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the district. Fiduciary funds are not reflected in the district-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a district's financial position. The District's net assets increased by \$1,507,730 during the current fiscal year. The increase is primarily a result of construction-in-progress projects throughout the District. At June 30, 2008, net assets were \$39,422,249.

Net assets are comprised of three categories – investment in capital assets, restricted and unrestricted. Sixty percent (60%) of the District's net assets are invested in capital assets (e.g., land, buildings, vehicles, and equipment less any related outstanding debt used to acquire those assets). The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Eight percent (8%) of net assets are *restricted* for repayment of debt and other specific purposes. The remaining 32% of net assets are considered *unrestricted* and may be used to meet the District's ongoing obligations to its programs.

FITZGERALD PUBLIC SCHOOLS

Management's Discussion and Analysis

District's Net Assets

| | Governmental Activities | |
|---|----------------------------|----------------------|
| | 2007-08 | 2006-07 |
| Current and other assets | \$ 27,534,810 | \$ 33,177,357 |
| Noncurrent assets, net | 61,818,616 | 58,447,662 |
| Total assets | 89,353,426 | 91,625,019 |
| Current liabilities | 6,402,653 | 7,848,909 |
| Noncurrent liabilities, net | 43,528,524 | 45,861,771 |
| Total liabilities | 49,931,177 | 53,710,680 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 23,519,460 | 22,439,381 |
| Restricted | 3,077,937 | 2,486,587 |
| Unrestricted | 12,824,852 | 12,988,551 |
| Total net assets | \$ 39,422,249 | \$ 37,914,519 |

FITZGERALD PUBLIC SCHOOLS

Management's Discussion and Analysis

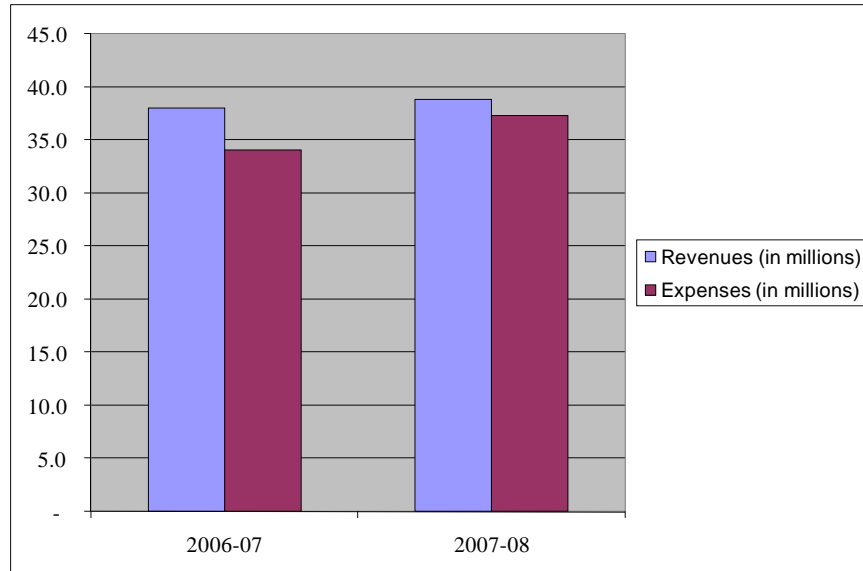
District's Changes in Net Assets

| | Governmental Activities | |
|------------------------------------|----------------------------|----------------------|
| | 2007-08 | 2006-07 |
| Revenue: | | |
| Program revenue: | | |
| Charges for services | \$ 358,411 | \$ 270,987 |
| Operating grants and contributions | 5,982,896 | 5,805,828 |
| General revenue: | | |
| Property taxes | 13,924,191 | 13,552,047 |
| State school aid | 17,141,241 | 16,048,452 |
| Other | 1,457,257 | 2,353,977 |
| Total revenue | 38,863,996 | 38,031,291 |
| Expenses: | | |
| Instruction | 18,587,137 | 16,453,340 |
| Support services | 12,616,680 | 12,155,731 |
| Community Service | 18,758 | 11,692 |
| Athletics | 358,293 | 361,079 |
| Food Service | 1,026,312 | 850,824 |
| Child care | 212,164 | 167,127 |
| Interest on long-term debt | 2,133,853 | 1,981,828 |
| Other | 9,824 | (75,023) |
| Unallocated depreciation | 2,393,245 | 2,070,747 |
| Total expenses | 37,356,266 | 33,977,345 |
| Increase (decrease) in net assets | 1,507,730 | 4,053,946 |
| Net assets, beginning of year | 37,914,519 | 33,860,573 |
| Net assets, end of year | \$ 39,422,249 | \$ 37,914,519 |

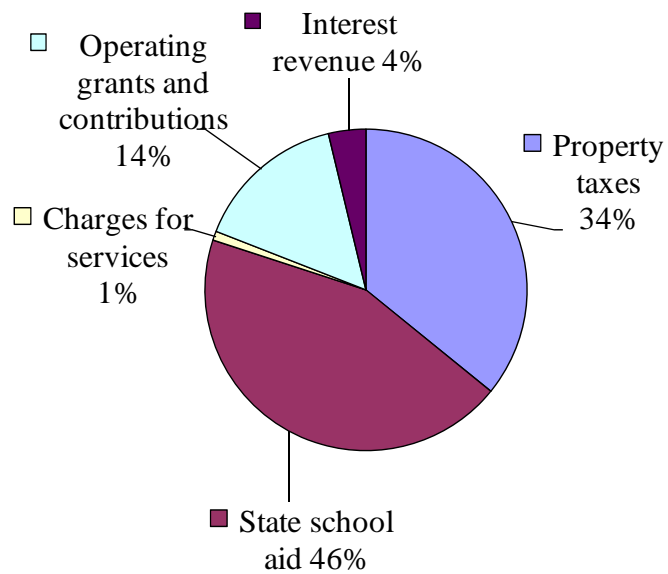
FITZGERALD PUBLIC SCHOOLS

Management's Discussion and Analysis

Total Revenues vs. Total Expenses - Governmental Activities



Revenues by Source - Governmental Activities



FITZGERALD PUBLIC SCHOOLS

Management's Discussion and Analysis

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a district's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$22,300,883, a decrease of \$4,285,266 from the prior year due primarily to construction expenditures in the capital project fund. Approximately 99.4% of this total amount, \$22.17 million, constitutes *unreserved fund balance*, which is available for spending at the district's discretion. Any remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in inventory and prepaid expenses.

The general fund is the chief operating fund of the District, and represents the bulk of the District's unreserved fund balance. At the end of the current fiscal year, unreserved fund balance of the general fund was \$12,238,167. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 40 percent of total general fund expenditures.

The fund balance of the District's general fund decreased by \$384,765 during the current fiscal year. This is primarily attributable to the reduction in revenue received from the State.

The capital projects fund incurred \$7,364,433 of expenditures, primarily for the construction of the new Westview Elementary School. These expenditures helped to bring the total fund balance down to \$6,972,779 which represents the remaining portion of the original bond proceeds.

General Fund Budgetary Highlights

Differences between the original and final amended budgeted revenues and expenditures amounted to an increase of \$1,699,467 in revenues and an increase in expenditures of \$3,393,504. The original budget, which was completed at the end of the prior fiscal year, reflected certain assumptions for enrollment, state aid, grant funding, staffing, and other expenditures. The final amended budget approved by the board in March 2008 reflected actual enrollment based on the September 2007 official pupil count, the actual increase in per pupil funding from the State and a revised estimate of Federal approved grant funding. Operating

FITZGERALD PUBLIC SCHOOLS

Management's Discussion and Analysis

expenditures based on the revised revenue estimate were updated accordingly. Actual total revenue for 2008 was less than the final budget by \$224,298 due primarily to less than expected state and federal grant revenues. Total expenditures were less than budget by \$3,035,413. The District budgeted approximately \$1,600,000 for instruction and \$0.4 million in operations and maintenance. The remaining favorable budget variance was due primarily to unused contingencies in operations and maintenance and employee benefits.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$61,458,636 (net of accumulated depreciation), which is an increase of \$3,398,401 over the prior year's investment. This investment in capital assets includes land, buildings, vehicles and equipment. The increase in the District's investment in capital assets for the current fiscal year was approximately 5% of the prior year's total, and was due mainly to the construction of the new Westview Elementary School.

District's Capital Assets (net of depreciation)

| | <u>2007-08</u> | <u>2006-07</u> |
|-------------------------------------|-----------------------------|-----------------------------|
| Land | \$ 887,724 | \$ 887,724 |
| Construction in progress | 1,011,755 | 33,458,622 |
| Buildings and building improvements | 57,396,527 | 21,357,436 |
| Buses and other vehicles | 507,733 | 419,793 |
| Furniture and equipment | 1,654,897 | 1,936,660 |
| Total | <u>\$ 61,458,636</u> | <u>\$ 58,060,235</u> |

Additional information on the District's capital assets can be found in the "Notes to the Financial Statements" section of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$44,025,000.

The District's total bonded debt decreased by \$2,110,000 or 5% reduction during the current fiscal year, due to debt service payments.

Additional information on the District's long-term debt can be found in the "Notes to the Financial Statements" section of this report.

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Management's Discussion and Analysis

Factors Bearing on the District's Future

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2008-09 fiscal year:

The District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund. The actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The District's administration and Board of Education (the "Board") consider many factors in the budget process. One of the most important factors affecting the budget is student enrollment. Over 70% of the District's revenue is derived from the State of Michigan's student enrollment based funding formula. The formula to allocate revenue to school districts is based on the blending of two official pupil counts and a per-pupil funding allocation (called the "Foundation Allowance"). The blended count for fiscal 2008 is based on 25 percent of the February 2008 count plus 75 percent of the September 2008 count. The sum of these products is multiplied by the Foundation Allowance of \$8,513. The FY2008-2009 District budget is based on anticipation of an increase of \$80 per pupil in Foundation Allowance and a reduction in enrollment of approximately fifty (50) students.

The 2009 budget was adopted in June 2008 and projected deficit spending. The budget contains assumptions, including the number of students that will be enrolled in September 2008. Based on the September 2008 preliminary (unofficial) student count, it appears that the September student count will be below the estimated count used in the original 2008 budget adopted by the Board. The budget also assumes the Foundation Allowance will increase by \$80 compared to the previous year. As of August 2008, the Michigan Legislature has determined that the 2009 Foundation Allowance will increase between \$56 - \$112 per pupil.

The District maintains a rolling two year financial forecast. Suggestions for increasing revenue and reducing expenses were contributed by staff district-wide. The pace at which suggestions for reducing expenses are implemented will vary. Factors affecting the pace of implementation include labor contract restrictions and the current financial condition of the district. The Board is committed to offering quality educational programs while being fiscally responsible.

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Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, 23200 Ryan Rd., Warren, MI 48091.

BASIC FINANCIAL STATEMENTS

FITZGERALD PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2008

| ASSETS | Governmental Activities |
|---|------------------------------------|
| Current assets | |
| Cash and cash equivalents | \$ 20,530,234 |
| Investments | 2,662,912 |
| Accounts receivable | 44,985 |
| Due from other governments | 4,172,330 |
| Prepaid items and other assets | 124,349 |
| Total current assets | 27,534,810 |
| Noncurrent assets | |
| Capital not being depreciated | 1,899,479 |
| Capital assets being depreciated | 87,871,963 |
| Accumulated depreciation | (28,312,806) |
| Net capital assets | 61,458,636 |
| Unamortized bond issuance costs | 359,980 |
| Total noncurrent assets | 61,818,616 |
| Total assets | 89,353,426 |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | 1,419,894 |
| Salaries and related liabilities | 2,399,602 |
| Accrued interest payable | 284,355 |
| Compensated absences and severance pay, due within one year | 90,272 |
| Bonds payable, due within one year | 2,208,530 |
| Total current liabilities | 6,402,653 |
| Noncurrent liabilities | |
| Bonds payable, net | 42,703,425 |
| Compensated absences and severance pay | 825,099 |
| Total noncurrent liabilities | 43,528,524 |
| Total liabilities | 49,931,177 |
| Net assets | |
| Invested in capital assets, net of related debt | 23,519,460 |
| Restricted for | |
| Debt service | 2,798,205 |
| Food services | 279,732 |
| Unrestricted | 12,824,852 |
| Total net assets | \$ 39,422,249 |

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

| <u>Functions / Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue</u> |
|--------------------------------|----------------------|---------------------------------|---|---|----------------------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| Governmental activities: | | | | | |
| Instruction | \$ 18,587,137 | \$ 27,488 | \$ 4,987,773 | \$ - | \$ (13,571,876) |
| Supporting services | 12,616,680 | - | - | - | (12,616,680) |
| Community service | 18,758 | - | - | - | (18,758) |
| Athletics | 358,293 | 26,767 | - | - | (331,526) |
| Food service | 1,026,312 | 159,942 | 995,123 | - | 128,753 |
| Child care | 212,164 | 144,214 | - | - | (67,950) |
| Interest on long-term debt | 2,133,853 | - | - | - | (2,133,853) |
| Other | 9,824 | - | - | - | (9,824) |
| Unallocated depreciation | 2,393,245 | - | - | - | (2,393,245) |
| Total | \$ 37,356,266 | \$ 358,411 | \$ 5,982,896 | \$ - | (31,014,959) |
| | | | | | |
| General revenues: | | | | | |
| Property taxes | | | | | 13,924,191 |
| State aid unrestricted | | | | | 17,141,241 |
| Gain on investments | | | | | 1,182,487 |
| Other non-program revenue | | | | | 274,770 |
| Total general revenues | | | | | 32,522,689 |
| Change in net assets | | | | | 1,507,730 |
| Net assets, beginning of year | | | | | 37,914,519 |
| Net assets, end of year | | | | | \$ 39,422,249 |

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

| ASSETS | General | Capital Project Fund | Nonmajor Funds | Totals |
|--|----------------------|----------------------------|---------------------|----------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 10,770,280 | \$ 6,267,780 | \$ 2,042,071 | \$ 19,080,131 |
| Investments | - | 1,465,013 | 1,197,899 | 2,662,912 |
| Accounts receivable | 44,028 | - | - | 44,028 |
| Due from other funds | 1,298,620 | 4,002 | 584,200 | 1,886,822 |
| Due from other governments | 4,172,330 | - | - | 4,172,330 |
| Inventory | - | - | 16,349 | 16,349 |
| Prepaid expenditures | 12,000 | - | 96,000 | 108,000 |
| Total assets | \$ 16,297,258 | \$ 7,736,795 | \$ 3,936,519 | \$ 27,970,572 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 1,419,894 | \$ - | \$ - | \$ 1,419,894 |
| Salaries and related liabilities | 1,929,428 | - | - | 1,929,428 |
| Accrued expenditures | 470,174 | - | - | 470,174 |
| Due to other funds | 227,595 | 764,016 | 858,582 | 1,850,193 |
| Total liabilities | 4,047,091 | 764,016 | 858,582 | 5,669,689 |
| Fund balances | | | | |
| Reserved for | | | | |
| Inventory | - | - | 16,349 | 16,349 |
| Prepaid expenditures | 12,000 | - | 96,000 | 108,000 |
| Unreserved | | | | |
| Designated by board | 8,128,938 | - | - | 8,128,938 |
| Undesignated | 4,109,229 | 6,972,779 | - | 11,082,008 |
| Undesignated, reported in nonmajor: | | | | |
| Debt service | - | - | 2,798,205 | 2,798,205 |
| Special revenue funds | - | - | 167,383 | 167,383 |
| Total fund balances | 12,250,167 | 6,972,779 | 3,077,937 | 22,300,883 |
| Total liabilities and fund balances | \$ 16,297,258 | \$ 7,736,795 | \$ 3,936,519 | \$ 27,970,572 |

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
June 30, 2008

| | |
|--|---------------|
| Fund balances - total governmental funds | \$ 22,300,883 |
|--|---------------|

Amounts reported for governmental activities in the statement of net assets are different because:

The District uses an internal service fund to charge the costs of certain activities, such as future sick and retirement, as appropriate to other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

| | |
|---------------------------------------|---------|
| Add: internal service fund net assets | 499,060 |
|---------------------------------------|---------|

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | |
|----------------------------------|--------------|
| Add: capital assets | 89,771,442 |
| Deduct: accumulated depreciation | (28,312,806) |

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

| | |
|--------------------------------------|--------------|
| Deduct: bonds payable, net | (44,911,955) |
| Deduct: accrued interest payable | (284,355) |
| Add: unamortized bond issuance costs | 359,980 |

| | |
|--|------------------------------------|
| Net assets of governmental activities | <u><u>\$ 39,422,249</u></u> |
|--|------------------------------------|

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

| | General | Capital Projects Fund | Nonmajor Funds | Totals |
|---------------------------------------|----------------------|--------------------------------------|---------------------------|----------------------|
| Revenue | | | | |
| Local sources | \$ 8,565,665 | \$ 3,062,554 | \$ 4,212,025 | \$ 15,840,244 |
| State sources | 19,203,046 | - | 36,004 | 19,239,050 |
| Federal sources | 2,232,682 | - | 791,930 | 3,024,612 |
| Interdistrict and other sources | 677,546 | - | - | 677,546 |
| Total revenue | 30,678,939 | 3,062,554 | 5,039,959 | 38,781,452 |
| Expenditures | | | | |
| Current | | | | |
| Instruction | 17,770,656 | - | - | 17,770,656 |
| Supporting services | 12,744,935 | - | - | 12,744,935 |
| Community services | 18,758 | - | - | 18,758 |
| Athletics | - | - | 1,026,312 | 1,026,312 |
| Child care | - | - | 384,648 | 384,648 |
| Food service | - | - | 212,164 | 212,164 |
| Debt service | | | | |
| Principal repayment | - | 490,000 | 1,620,000 | 2,110,000 |
| Interest and fiscal charges | - | 271,160 | 1,492,878 | 1,764,038 |
| Other | - | 225 | 415,363 | 415,588 |
| Other | - | 9,824 | - | 9,824 |
| Capital outlay | - | 6,593,224 | 16,571 | 6,609,795 |
| Total expenditures | 30,534,349 | 7,364,433 | 5,167,936 | 43,066,718 |
| Revenue over (under) expenditure | 144,590 | (4,301,879) | (127,977) | (4,285,266) |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 719,327 | 719,327 |
| Transfers out | (529,355) | (189,972) | - | (719,327) |
| Total other financing sources (uses) | (529,355) | (189,972) | 719,327 | - |
| Net change in fund balance | (384,765) | (4,491,851) | 591,350 | (4,285,266) |
| Fund balances, beginning of year | 12,634,932 | 11,464,630 | 2,486,587 | 26,586,149 |
| Fund balances, end of year | \$ 12,250,167 | \$ 6,972,779 | \$ 3,077,937 | \$ 22,300,883 |

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ (4,285,266)

Amounts reported for *governmental activities* in the statement of activities are different because:

The District uses an internal service fund to charge the costs of certain activities, such as future sick and retirement, as appropriate, to other funds. The change in net assets of the internal service fund is included in governmental activities. 238,822

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay 7,003,392
Deduct: depreciation expense (2,393,245)

Governmental funds do not report a recognition of either a gain or loss on the sale or disposition of fixed assets, but they are reported in the Statement of Activities.

Deduct: loss on disposal of capital assets (1,211,746)

Revenue reported in the statement of activities in the prior year, which was collected and recognized in the in governmental fund financial statements in the current year.

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities 2,110,000
Deduct: amortization of bond premium and bond costs (59,276)
Add: payment to escrow agent -
Deduct: proceeds from issuance of debt -

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest payable on bonds 105,049

Change in net assets of governmental activities: \$ 1,507,730

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS

Statement of Revenue, Expenditures, and Changes in Fund Balance Budget and Actual General Fund Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---------------------------------------|----------------------|---------------------|----------------------|--|
| Revenue | | | | |
| Local sources | \$ 8,156,000 | \$ 8,429,179 | \$ 8,565,665 | \$ 136,486 |
| State sources | 18,379,527 | 19,414,654 | 19,203,046 | (211,608) |
| Federal sources | 2,081,802 | 2,381,859 | 2,232,682 | (149,177) |
| Interdistrict and other sources | 586,440 | 677,545 | 677,546 | 1 |
| Total revenue | 29,203,769 | 30,903,236 | 30,678,939 | (224,298) |
| Expenditures | | | | |
| Instruction | | | | |
| Basic programs | 13,121,619 | 14,952,487 | 13,113,597 | (1,838,890) |
| Added needs | 4,209,577 | 4,817,136 | 4,657,059 | (160,077) |
| Total instruction | 17,331,196 | 19,769,622 | 17,770,656 | (1,998,967) |
| Support Services | | | | |
| Pupil services | 1,842,319 | 1,847,935 | 1,855,915 | 7,980 |
| Instructional staff | 1,824,030 | 1,936,789 | 1,925,735 | (11,054) |
| General administration | 575,954 | 572,742 | 533,899 | (38,843) |
| School administration | 1,637,324 | 1,805,758 | 1,768,784 | (36,974) |
| Business services | 512,021 | 521,468 | 468,767 | (52,701) |
| Operation and maintenance | 5,065,906 | 5,755,444 | 4,906,246 | (849,198) |
| Transportation | 1,145,577 | 1,099,407 | 1,102,765 | 3,358 |
| Central | 227,081 | 233,983 | 182,824 | (51,159) |
| Total support services | 12,830,211 | 13,773,526 | 12,744,935 | (1,028,591) |
| Community services | 14,850 | 26,613 | 18,758 | (7,855) |
| Capital outlay | - | - | - | - |
| Total expenditures | 30,176,258 | 33,569,762 | 30,534,349 | (3,035,413) |
| Revenues over (under) expenditures | (972,489) | (2,666,526) | 144,590 | 2,811,115 |
| Other financing sources (uses) | | | | |
| Transfer in | 14,356 | 75,000 | - | (75,000) |
| Transfer out | (500,283) | (528,765) | (529,355) | (590) |
| Total other financing uses | (485,927) | (453,765) | (529,355) | (75,590) |
| Net change in fund balance | (1,458,417) | (3,120,291) | (384,765) | 2,735,525 |
| Fund balance, beginning of year | 12,634,932 | 12,634,932 | 12,634,932 | - |
| Fund balance, end of year | \$ 11,176,515 | \$ 9,514,641 | \$ 12,250,167 | \$ 2,735,525 |

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2008

| | <u>Internal Service Benefit Trust</u> |
|---|---|
| Current assets | |
| Cash and cash equivalents | \$ 1,450,103 |
| Total assets | <u>1,450,103</u> |
| Current liabilities | |
| Due to other funds | 35,672 |
| Compensated absences and severance pay, due within one year | <u>90,272</u> |
| Total current liabilities | 125,944 |
| Noncurrent liabilities | |
| Compensated absences and severance pay | <u>825,099</u> |
| Total liabilities | <u>951,043</u> |
| Net assets | <u><u>\$ 499,060</u></u> |

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
NET ASSETS - PROPRIETARY FUND
Year Ended June 30, 2008

| | <u>Internal Service Benefit Trust</u> |
|---|---|
| Operating revenue | \$ - |
| Operating expenses | |
| Changes in accrued compensated absences | <u>(156,278)</u> |
| Operating loss | 156,278 |
| Nonoperating revenue | |
| Earnings on investments | <u>82,544</u> |
| Change in net assets | 238,822 |
| Net assets, beginning of year | <u>260,238</u> |
| Net assets, end of year | <u><u>\$ 499,060</u></u> |

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2008

| | Internal Service Benefit Trust |
|---|---|
| Cash used by operating activities | |
| Cash paid to users | \$ (2,026,190) |
| Cash provided by investing activities | |
| Earnings on investments | <u>82,544</u> |
| Decrease in cash and cash equivalents | (1,943,646) |
| Cash and cash equivalents, beginning of year | <u>3,393,749</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 1,450,103</u></u> |

Reconciliation of Operating Income to Net Cash Provided by Operations

| | |
|------------------------------------|-------------------------------------|
| Operating loss | \$ 156,278 |
| Decrease in due to other funds | (1,964,328) |
| Decrease in compensated absences | <u>(218,140)</u> |
| Net cash used by operations | <u><u>\$ (2,026,190)</u></u> |

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
ALL FIDUCIARY FUNDS
June 30, 2008

| | <u>Agency</u> <u>Student</u> <u>Activities</u> | <u>Private</u> <u>Purpose Trust</u> <u>Scholarship</u> <u>Fund</u> | <u>Pension and Other</u> <u>Employee Benefits</u> <u>Trust Fund</u> <u>Deferred</u> <u>Compensation</u> |
|--------------------------------------|--|---|---|
| Assets | | | |
| Cash and cash equivalents | \$ 248,579 | \$ - | \$ - |
| Accounts receivable | - | 26,647 | - |
| Due from other funds | - | 1,750 | - |
| | <u>-</u> | <u>1,750</u> | <u>-</u> |
| Total assets | <u>\$ 248,579</u> | <u>28,397</u> | <u>-</u> |
| Liabilities | | | |
| Accounts payable | \$ 44,030 | - | - |
| Due to other funds | 2,707 | - | - |
| Due to student groups and activities | 201,842 | - | - |
| | <u>201,842</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>\$ 248,579</u> | <u>-</u> | <u>-</u> |
| Net assets | | | |
| Unrestricted | | <u>\$ 28,397</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

FITZGERALD PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
Year Ended June 30, 2008

| | <u>Private Purpose Trust</u> | <u>Pension and Other Employee Benefits Trust Fund</u> |
|--------------------------------|----------------------------------|---|
| | <u>Scholarship</u> | <u>Deferred Compensation</u> |
| Revenue | | |
| Local sources | | |
| Earnings on investments | \$ 498 | \$ - |
| Contributions | 7,411 | - |
| | <u>7,909</u> | <u>-</u> |
| Total revenue | | |
| | <u>7,909</u> | <u>-</u> |
| Expenses | | |
| Scholarships | 4,800 | - |
| Participant withdrawals | <u>-</u> | <u>28,250</u> |
| | <u>4,800</u> | <u>28,250</u> |
| Total expenses | | |
| | <u>4,800</u> | <u>28,250</u> |
| Change in net assets | 3,109 | (28,250) |
| Net assets, beginning of year | <u>25,288</u> | <u>28,250</u> |
| Net assets, end of year | <u><u>\$ 28,397</u></u> | <u><u>\$ -</u></u> |

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Fitzgerald Public Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary fund, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the fiduciary trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds use the accrual basis of accounting but do not use the economic resource measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of expenditure driven grants, which are considered available if collected within one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Business-type activities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services in connection with the fund's primary ongoing operations. All other revenues and expenses are non-operating.

The District reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

The capital projects fund accounts for the construction as well as, the acquisition of capital assets and the renovation of certain other District facilities. These projects are funded by two general obligation unlimited tax bond issues.

Additionally, the District reports the following fund types:

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The District's special revenue funds include the food services, community services, and athletics funds. Any operating deficit generated by these activities is the responsibility of the general fund.

The debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The internal service fund revenues and expenses are related to services provided to the District on a cost-reimbursement basis. The District uses an internal service fund to provide for compensated absences relating to unused sick and vacation days and certain retirement payments.

The fiduciary funds are assets held by the District in a trustee capacity or as an agent on behalf of others. The District has three fiduciary funds, which include the private-purpose trust, the student activities agency fund and the 457B pension fund. The private-purpose trust includes contributions received by the District to be awarded in the form of scholarships. The student activities agency fund is used to account for transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students. The 457B pension fund is a retirement fund held in trust for the participants.

The private purpose trust and the 457B pension fund use the economic resources measurement focus and the accrual basis of accounting. The student activities agency fund is custodial in nature where assets equal liabilities and has no measurement focus.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The effect of inter-fund activity has been eliminated from the district-wide financial statements.

D. Assets, Liabilities and Equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for the following types of investments.

- (a) Bonds, bills, or notes of the United States.
- (b) Certificates of deposit insured by a State or national bank, savings account of a state or federal savings and loan association, or certificates of deposits or share certificates of a state or federal credit union organized and authorized to operate in this state. These institutions should be located in the Macomb, Oakland, and Wayne Tri-County area.
- (c) Insured money market accounts issued by a state or national bank, federal savings and loan association, or insured money market accounts of a state or federal credit union organized and authorized to operate in this state. These institutions should be located in the Macomb, Oakland, and Wayne Tri-County area.
- (d) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

3. *Inventories and prepaid items*

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both district-wide and fund financial statements.

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Land improvements | 20 |
| Buildings and improvements | 20 - 50 |
| Furniture and equipment | 5 - 15 |
| Licensed vehicles | 8 |

5. *Compensated absences*

The liability for compensated absences reported in the district-wide statements consists of accrued vacation, accrued sick time, and severance pay. A liability for these amounts is reported in governmental funds for amounts which have matured, such as due to retirements and resignations. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

6. *Long-term obligations*

In the district-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts received in debt issuances are reported as other financing sources and/or uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

B. Capital Projects Fund Compliance

The Capital Projects Fund records capital project activities funded with bonds proceeds after May 1, 1994 and Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1351a and § 1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No. 01-95.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

| | <u>Deposits</u> | <u>Investments</u> | <u>Other</u> | <u>Total Book</u> |
|-------------------------|-----------------------------|----------------------------|----------------------|-----------------------------|
| Governmental Activities | | | | |
| Cash | \$ 18,807,517 | \$ 1,722,217 | \$ 500 | \$ 20,530,234 |
| Investments | - | 2,662,912 | - | 2,662,912 |
| Fiduciary Funds | | | | |
| Cash | <u>248,579</u> | <u>-</u> | <u>-</u> | <u>248,579</u> |
| | <u>\$ 19,056,096</u> | <u>\$ 4,385,129</u> | <u>\$ 500</u> | <u>\$ 23,441,725</u> |

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments:

| <u>Investment Type</u> | <u>Less than 1 year</u> | <u>1 -5</u> | <u>Not Applicable</u> | <u>Total</u> | <u>Rating</u> |
|------------------------|-----------------------------|--------------------|---------------------------|----------------------------|---------------|
| U.S. Agencies | \$ 1,465,013 | \$ - | \$ - | \$ 1,465,013 | AAA |
| Investment Pools | <u>-</u> | <u>-</u> | <u>2,920,116</u> | <u>2,920,116</u> | N/A |
| Total | <u>\$ 1,465,013</u> | <u>\$ -</u> | <u>\$2,920,116</u> | <u>\$ 4,385,129</u> | |

Investment and Deposit Risk

Interest Rate Risk State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Credit Risk State law limits investments to specific investment types as identified in the summary of significant accounting policies of this report. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for all and U.S. Agencies are AAA rated by Standard and Poors rating service.

Custodial Credit Risk – Deposits Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, \$19,202,793 of the District's bank balance of \$19,602,793 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. Of the \$4,385,129 balance in investments, the District has a custodial credit risk exposure of \$4,385,129 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk State law limits allowable investments but does not limit concentration of credit risk as identified in note 1 of the summary of significant accounting policies. The District investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the District's investments are in Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Federal Home Loan Bank, and Federal National Mortgage Association notes. All investments held at year end are reported above.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

B. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2008 is as follows:

| <u>Due To</u> | <u>Due From</u> | | | | | <u>Total</u> |
|--------------------------|--------------------------|-----------------------------|---------------------------------|------------------------------|------------------------|----------------------------|
| | <u>General Fund</u> | <u>Capital Project Fund</u> | <u>Other Governmental Funds</u> | <u>Internal Service Fund</u> | <u>Fiduciary Funds</u> | |
| General Fund | \$ - | \$ 764,016 | \$ 498,932 | \$ 35,672 | \$ - | \$ 1,298,620 |
| Capital Project Fund | 4,002 | - | - | - | - | 4,002 |
| Other Governmental Funds | <u>223,593</u> | <u>-</u> | <u>359,650</u> | <u>-</u> | <u>957</u> | <u>584,200</u> |
| Total | <u>\$ 227,595</u> | <u>\$ 764,016</u> | <u>\$ 858,582</u> | <u>\$ 35,672</u> | <u>\$ 957</u> | <u>\$ 1,886,822</u> |

Interfund balances result from the use of a centralized cash disbursements system.

The composition of interfund transfers for the year ended is as follows:

| <u>Transfer Out</u> | <u>Transfer In</u> | | <u>Total</u> |
|----------------------|---------------------|---------------------------------|--------------------------|
| | <u>General Fund</u> | <u>Other Governmental Funds</u> | |
| General Fund | \$ - | \$ 529,355 | \$ 529,355 |
| Capital Project Fund | <u>-</u> | <u>189,972</u> | <u>189,972</u> |
| Total | <u>\$ -</u> | <u>\$ 719,327</u> | <u>\$ 719,327</u> |

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2008, the District transferred funds primarily to subsidize the athletics and child care programs as well as to transfer required funds to satisfy sinking fund requirements.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

C. Capital assets

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals and Adjustments</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------|--|---------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 887,724 | \$ - | \$ - | \$ 887,724 |
| Construction in progress | <u>33,458,622</u> | <u>200,536</u> | <u>32,647,403</u> | <u>1,011,755</u> |
| Subtotal capital assets not being depreciated | <u>34,346,346</u> | <u>200,536</u> | <u>32,647,403</u> | <u>1,899,479</u> |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 43,716,235 | 39,146,863 | 3,031,587 | 79,831,511 |
| Furniture and equipment | 6,772,571 | 42,452 | 16,164 | 6,798,859 |
| Vehicles | <u>1,157,038</u> | <u>260,944</u> | <u>176,389</u> | <u>1,241,593</u> |
| Subtotal capital assets being depreciated | <u>51,645,844</u> | <u>39,450,259</u> | <u>3,224,140</u> | <u>87,871,963</u> |
| Accumulated Depreciation | | | | |
| Buildings and improvements | 22,358,799 | 1,971,166 | 1,894,981 | 22,434,984 |
| Furniture and equipment | 4,835,911 | 322,040 | 13,989 | 5,143,962 |
| Vehicles | <u>737,245</u> | <u>100,039</u> | <u>103,424</u> | <u>733,860</u> |
| Subtotal accumulated depreciation | <u>27,931,955</u> | <u>2,393,245</u> | <u>2,012,394</u> | <u>28,312,806</u> |
| Net capital assets being depreciated | <u>23,713,889</u> | <u>37,057,014</u> | <u>1,211,746</u> | <u>59,559,157</u> |
| Net capital assets | <u>\$ 58,060,235</u> | <u>\$ 37,257,550</u> | <u>\$ 33,859,149</u> | <u>\$ 61,458,636</u> |

Depreciation expense was not charged to functions/programs of the primary government as the District considers its assets to impact multiple activities and allocation is not practical.

D. Long-term debt

The following is a summary of bond, and compensated absence transactions of the District for the year ended June 30, 2008:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---|------------------------------|-------------------|-----------------------|---------------------------|--------------------------------|
| Governmental activities | | | | | |
| General obligation bonds | \$46,135,000 | \$ - | \$ (2,110,000) | \$44,025,000 | \$ 2,145,000 |
| Less: | | | | | |
| Unamortized (discount) and premium, net | 1,307,067 | - | (95,359) | 1,211,708 | 95,359 |
| Deferred loss on refunding | <u>(356,583)</u> | <u>-</u> | <u>31,830</u> | <u>(324,753)</u> | <u>(31,829)</u> |
| Total bonds, net | <u>47,085,484</u> | <u>-</u> | <u>(2,173,529)</u> | <u>44,911,955</u> | <u>2,208,530</u> |
| Compensated absences | <u>1,133,511</u> | <u>915,371</u> | <u>(1,133,511)</u> | <u>915,371</u> | <u>90,272</u> |
| Total | <u>\$48,218,995</u> | <u>\$ 915,371</u> | <u>\$ (3,307,040)</u> | <u>\$45,827,326</u> | <u>\$ 2,298,802</u> |

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Bonds payable at June 30, 2008, are comprised of the following issues:

General Obligation Bonds:

| | |
|---|-----------------------------|
| 2001 School Building and Site Bonds - annual installments to a sinking fund cash account of \$103,354 per year from November 20, 2002 through November 20, 2015 at 0% interest. Principal is due on November 20, 2015. | \$ 2,000,000 |
| 2002 School Building and Site Bonds - annual installments to a sinking fund cash account of \$86,618 per year from November 12, 2003 through November 12, 2017 at 0% interest. Principal is due on November 12, 2017. | 1,700,000 |
| 2004 School Building and Site Bonds - Unlimited Tax General Obligation - \$7,795,000 term bonds due in annual installments of \$430,000 to \$670,000 from May 1, 2005 through May 1, 2018, interest at 3.30% to 4.70%. | 5,955,000 |
| 2004 Refunding Bonds - Unlimited Tax General Obligation - \$8,060,000 term bonds due in annual installments of \$375,000 to \$755,000 from May 1, 2005 through May 1, 2016, interest at 2.0% to 4.0%. | 5,505,000 |
| 2004B School Building and Site Bonds - Unlimited Tax General Obligation - \$30,730,000 term bonds due in annual installments of \$605,000 to \$2,150,000 from May 1, 2006 through May 1, 2025, interest at 2.5% to 5.00%. This bond was partially refunded by the 2006 Refunding Bonds-Unlimited Tax General Obligation. See below. | 18,865,000 |
| 2006 Refunding Bonds-Unlimited Tax General Obligation - \$10,000,000 term bonds due in annual installments of \$198,889 to \$2,236,000 from May 1, 2007 through May 1, 2025, interest at 4.0 % . | <u>10,000,000</u> |
| | <u>\$ 44,025,000</u> |

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds are as follows:

| <u>Fiscal Year</u> | <u>Principal Due</u> | <u>Interest Due</u> | <u>Total</u> |
|------------------------|-----------------------------|-----------------------------|-----------------------------|
| 2009 | \$ 2,145,000 | \$ 1,706,133 | \$ 3,851,133 |
| 2010 | 2,190,000 | 1,639,925 | 3,829,925 |
| 2011 | 2,280,000 | 1,567,838 | 3,847,838 |
| 2012 | 2,420,000 | 1,483,325 | 3,903,325 |
| 2013 | 2,490,000 | 1,389,985 | 3,879,985 |
| 2014-2018 | 17,250,000 | 5,292,305 | 22,542,305 |
| 2019-2023 | 10,930,000 | 2,280,350 | 13,210,350 |
| 2024-2025 | 4,320,000 | 258,800 | 4,578,800 |
| Total | <u>\$ 44,025,000</u> | <u>\$ 15,618,661</u> | <u>\$ 59,643,661</u> |

Advance Refundings

In prior years, the District defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service requirements on the old issues. Therefore, the related assets and liabilities are not included in the financial statements. As of June 30, 2008, \$18,865,000 of bonds are considered defeased.

E. Commitments and Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2008.

As of June 30, 2008, the District is obligated for construction contracts relating to building projects in the amount of \$28,383,555 of which \$11,381,207 is yet to be completed. These commitments are not susceptible to accrual. Accordingly, no liabilities have been recorded in the financial statements.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance to satisfy any claims related to general liability, vehicle liability, property and casualty, athletic participation, employee health and accident and errors, and omissions. The shared risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied by the City of Warren on July 1, of each fiscal year. All levies become delinquent on February 14. The Delinquent Tax Revolving Funds of Macomb County advance delinquent real taxes to the District.

C. Defined Benefit Pension Plan

Plan Description

The Fitzgerald Public Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, PO Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP on or after January 1, 1987 and prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

State legislation required that the District contribute 16.72%.

The contribution requirements of plan members and the Fitzgerald Public Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The pension benefit rate changed from 17.74% to 16.72% in 2008. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$3,015,270, \$3,060,765 and \$2,815,139, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance included as part of the District's total monthly contribution to the pension plan discussed above.

Pension recipients are eligible for fully paid (self only, additional charges apply to dependent coverage) Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

D. Fund Balance Designations

During the year ended June 30, 1992, the Board of Education resolved to designate revenues for building repair and renovations, capital outlay, vehicles and technology. The amount designated is based on .50 mills for building repair and renovations, .25 mills for vehicles, .75 mills for technology multiplied by the 1994-95 taxable valuation of the District, increased annually by the percentage increase in the State foundation grant.

During the year ended June 30, 2001, the Board of Education resolved to designate \$5,000 per year for band uniforms.

During the year ended June 30, 1998, the Board of Education resolved to designate the funds received as settlement for Durant case litigation in a separate account, for which all income is to be used to fund projects the following year as recommended by the board of education.

During the year ended June 30, 1998, the Board of Education resolved to designate fund balance for working capital equal to an amount computed as obligations in excess of revenues for the period July 1 to October 19, the date presumed to be the first Michigan State Aid payment each year.

During the year ended June 30, 1999, the Board of Education resolved to designate for declining enrollment in an amount equal to 100 FTE's multiplied by the current year's foundation allowance.

During the year ended June 30, 2007, the Board of Education resolved to designate \$2,000,000 for the purpose of paying the District's contractual obligation to provide certain post-retirement benefits to current and future retirees.

A summary of the designated fund balances at June 30, 2008 is as follows:

| | |
|--------------------------------------|---------------------------|
| Building repairs and renovations | \$1,010,171 |
| Capital outlay | 745,887 |
| Vehicles | 158,569 |
| Technology | 380,808 |
| Band uniforms | 46,135 |
| Durant settlement fund | 890,368 |
| State aid working capital | 2,060,000 |
| Declining enrollment | 837,000 |
| Post retirement benefits | <u>2,000,000</u> |
| Total designated fund balance | <u>\$8,128,938</u> |

* * * * *

SUPPLEMENTARY INFORMATION

FITZGERALD PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

| ASSETS | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Totals</u> |
|--|----------------------------|----------------------------|----------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 434,658 | \$ 1,607,413 | \$ 2,042,071 |
| Investments | - | 1,197,899 | 1,197,899 |
| Due from other funds | 12,231 | 571,969 | 584,200 |
| Prepays | 96,000 | - | 96,000 |
| Inventory | 16,349 | - | 16,349 |
| Total assets | <u>\$ 559,238</u> | <u>\$ 3,377,281</u> | <u>\$ 3,936,519</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Due to other funds | <u>\$ 279,506</u> | <u>\$ 579,076</u> | <u>\$ 858,582</u> |
| Fund balances | | | |
| Reserved for: | | | |
| Prepays and inventory | 112,349 | - | 112,349 |
| Debt service | - | 2,798,205 | 2,798,205 |
| Unreserved: | | | |
| Undesignated | <u>167,383</u> | <u>-</u> | <u>167,383</u> |
| Total fund balances | <u>279,732</u> | <u>2,798,205</u> | <u>3,077,937</u> |
| Total liabilities and fund balances | <u>\$ 559,238</u> | <u>\$ 3,377,281</u> | <u>\$ 3,936,519</u> |

FITZGERALD PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2008

| | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Totals</u> |
|---------------------------------------|----------------------------|----------------------------|----------------------------|
| Revenue | | | |
| Local sources | \$ 499,906 | \$ 3,712,119 | \$ 4,212,025 |
| State sources | 36,004 | - | 36,004 |
| Federal sources | 791,930 | - | 791,930 |
| Total revenue | <u>1,327,840</u> | <u>3,712,119</u> | <u>5,039,959</u> |
| Expenditures | | | |
| Current | | | |
| Food service | 1,026,312 | - | 1,026,312 |
| Athletics | 384,648 | - | 384,648 |
| Child care | 212,164 | - | 212,164 |
| Capital outlay | 16,571 | - | 16,571 |
| Debt service | | | |
| Principal repayment | - | 1,620,000 | 1,620,000 |
| Interest and fiscal charges | - | 1,492,878 | 1,492,878 |
| Other | - | 415,363 | 415,363 |
| Total expenditures | <u>1,639,695</u> | <u>3,528,241</u> | <u>5,167,936</u> |
| Revenue under expenditures | (311,855) | 183,878 | (127,977) |
| Other financing sources (uses) | | | |
| Transfers in | <u>424,513</u> | <u>294,814</u> | <u>719,327</u> |
| Net change in fund balance | 112,658 | 478,692 | 591,350 |
| Fund balances, beginning of year | <u>167,074</u> | <u>2,319,513</u> | <u>2,486,587</u> |
| Fund balances, end of year | <u><u>\$ 279,732</u></u> | <u><u>\$ 2,798,205</u></u> | <u><u>\$ 3,077,937</u></u> |

FITZGERALD PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2008

| | <u>Athletics</u> | <u>Child Care</u> | <u>Food Service</u> | <u>Total</u> |
|--|--------------------------|-------------------------|--------------------------|--------------------------|
| ASSETS | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 257,845 | \$ 21,161 | \$ 155,652 | \$ 434,658 |
| Due from other funds | 500 | - | 11,731 | 12,231 |
| Prepays | - | - | 96,000 | 96,000 |
| Inventory | - | - | 16,349 | 16,349 |
| Total assets | <u>\$ 258,345</u> | <u>\$ 21,161</u> | <u>\$ 279,732</u> | <u>\$ 559,238</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Due to other funds | <u>\$ 258,345</u> | <u>\$ 21,161</u> | <u>\$ -</u> | <u>\$ 279,506</u> |
| Fund balances | | | | |
| Reserved for prepaids and inventory | - | - | 112,349 | 112,349 |
| Unreserved, undesignated | - | - | 167,383 | 167,383 |
| Total fund balances | - | - | 279,732 | 279,732 |
| Total liabilities and fund balances | <u>\$ 258,345</u> | <u>\$ 21,161</u> | <u>\$ 279,732</u> | <u>\$ 559,238</u> |

FITZGERALD PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
Year Ended June 30, 2008

| | <u>Athletics</u> | <u>Child Care</u> | <u>Food Service</u> | <u>Total</u> |
|-----------------------------------|--------------------|-----------------------|--------------------------|--------------------------|
| Revenue | | | | |
| Local sources | \$ 27,979 | \$ 144,320 | \$ 327,607 | \$ 499,906 |
| State sources | - | - | 36,004 | 36,004 |
| Federal sources | - | - | 791,930 | 791,930 |
| | <u>27,979</u> | <u>144,320</u> | <u>1,155,541</u> | <u>1,327,840</u> |
| Expenditures | | | | |
| Food service | - | - | 1,026,312 | 1,026,312 |
| Athletics | 384,648 | - | - | 384,648 |
| Child care | - | 212,164 | - | 212,164 |
| Capital outlay | - | - | 16,571 | 16,571 |
| | <u>384,648</u> | <u>212,164</u> | <u>1,042,883</u> | <u>1,639,695</u> |
| Revenue over (under) expenditures | (356,669) | (67,844) | 112,658 | (311,855) |
| Other financing sources | | | | |
| Transfers in | <u>356,669</u> | <u>67,844</u> | <u>-</u> | <u>424,513</u> |
| Net change in fund balance | - | - | 112,658 | 112,658 |
| Fund balances, beginning of year | <u>-</u> | <u>-</u> | <u>167,074</u> | <u>167,074</u> |
| Fund balances, end of year | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 279,732</u></u> | <u><u>\$ 279,732</u></u> |

FITZGERALD PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
June 30, 2008

| | <u>2004 R</u> <u>Issue</u> | <u>2004 B</u> <u>Issue</u> | <u>2006 R</u> <u>Issue</u> |
|--|-------------------------------|-------------------------------|-------------------------------|
| ASSETS | | | |
| Assets | | | |
| Cash and cash equivalents | \$ 496,194 | \$ 1,111,219 | \$ - |
| Investments | - | - | - |
| Due from other funds | - | - | 571,969 |
| | <u>-</u> | <u>-</u> | <u>571,969</u> |
| Total assets | <u><u>\$ 496,194</u></u> | <u><u>\$ 1,111,219</u></u> | <u><u>\$ 571,969</u></u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Due to other funds | \$ 61 | \$ 579,015 | \$ - |
| | <u>61</u> | <u>579,015</u> | <u>-</u> |
| Fund balances, unreserved, undesignated | <u>496,133</u> | <u>532,204</u> | <u>571,969</u> |
| | <u>496,133</u> | <u>532,204</u> | <u>571,969</u> |
| Total liabilities and fund balances | <u><u>\$ 496,194</u></u> | <u><u>\$ 1,111,219</u></u> | <u><u>\$ 571,969</u></u> |

FITZGERALD PUBLIC SCHOOLS
COMBINING BALANCE SHEET (CONCLUDED)
NONMAJOR DEBT SERVICE FUNDS
June 30, 2008

| | 2001 | 2002 | |
|--|--------------------------|--------------------------|----------------------------|
| | QZAB | QZAB | Total |
| ASSETS | | | |
| Assets | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ 1,607,413 |
| Investments | 720,360 | 477,539 | 1,197,899 |
| Due from other funds | - | - | 571,969 |
| Total assets | <u>\$ 720,360</u> | <u>\$ 477,539</u> | <u>\$ 3,377,281</u> |
| FUND BALANCES | | | |
| Liabilities | | | |
| Due to other funds | \$ - | \$ - | \$ 579,076 |
| Fund balances, unreserved, undesignated | <u>720,360</u> | <u>477,539</u> | <u>2,798,205</u> |
| Total liabilities and fund balances | <u>\$ 720,360</u> | <u>\$ 477,539</u> | <u>\$ 3,377,281</u> |

FITZGERALD PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
Year Ended June 30, 2008

| | <u>2004 R</u> <u>Issue</u> | <u>2004 B</u> <u>Issue</u> | <u>2006 R</u> <u>Issue</u> |
|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Revenue | | | |
| Local sources | \$ 457,742 | \$ 2,031,375 | \$ 1,171,083 |
| Total revenue | <u>457,742</u> | <u>2,031,375</u> | <u>1,171,083</u> |
| Expenditures | | | |
| Debt service | | | |
| Principal | 670,000 | 950,000 | - |
| Interest | 206,253 | 886,625 | 400,000 |
| Other | <u>12,960</u> | <u>402,290</u> | <u>113</u> |
| Total expenditures | <u>889,213</u> | <u>2,238,915</u> | <u>400,113</u> |
| Revenue over (under) expenditures | (431,471) | (207,540) | 770,970 |
| Other financing sources | | | |
| Transfer in | <u>104,842</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | (326,629) | (207,540) | 770,970 |
| Fund balances, beginning of year | <u>822,762</u> | <u>739,744</u> | <u>(199,001)</u> |
| Fund balances, end of year | <u><u>\$ 496,133</u></u> | <u><u>\$ 532,204</u></u> | <u><u>\$ 571,969</u></u> |

FITZGERALD PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES (CONCLUDED)
NONMAJOR DEBT SERVICE FUNDS
Year Ended June 30, 2008

| | 2001 QZAB | 2002 QZAB | Total |
|-----------------------------------|----------------------|----------------------|---------------------|
| Revenue | | | |
| Local sources | \$ 34,616 | \$ 17,303 | \$ 3,712,119 |
| Total revenue | 34,616 | 17,303 | 3,712,119 |
| Expenditures | | | |
| Debt service | | | |
| Principal | - | - | 1,620,000 |
| Interest | - | - | 1,492,878 |
| Other | - | - | 415,363 |
| Total expenditures | - | - | 3,528,241 |
| Revenue over (under) expenditures | 34,616 | 17,303 | 183,878 |
| Other financing sources | | | |
| Transfer in | 103,354 | 86,618 | 294,814 |
| Net change in fund balance | 137,970 | 103,921 | 478,692 |
| Fund balances, beginning of year | 582,390 | 373,618 | 2,319,513 |
| Fund balances, end of year | \$ 720,360 | \$ 477,539 | \$ 2,798,205 |



FITZGERALD PUBLIC SCHOOLS

December 5, 2008

Rehmann Robson
5750 New King Street
Suite 200
Troy, MI 48098

We are providing this letter in connection with your audit of the financial statements of ***Fitzgerald Public Schools*** as of June 30, 2008 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Fitzgerald Public Schools*** and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of December 5, 2008, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of the Board of Education or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.

5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, you have proposed adjusting journal entries that have been posted. We are in agreement with those adjustments.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have taken timely and appropriate steps to remedy violations of provisions of contracts or grant agreements that you have reported to us.
10. We have a process to track the status of audit findings and recommendations.
11. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
12. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
13. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
14. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of

administrative officials, board members, and members of the governing body; and affiliated governmental units that are not included in the financial statements as part of the reporting entity.


- b. Guarantees, whether written or oral, under which the District is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
15. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
16. There are no—
- a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity which were not properly authorized and approved.
17. As part of your audit, you prepared the draft financial statements and related notes and schedule of expenditures of federal awards. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.

18. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
19. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
20. The financial statements properly classify all funds and activities.
21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
22. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
23. Provisions for uncollectible receivables have been properly identified and recorded.
24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
27. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
28. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
29. The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
30. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
31. With respect to federal award programs:
 - a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

- b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
- c. We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- d. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies (including material weaknesses) reported in the schedule of findings and questioned costs.
- e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.
- f. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.

- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- l. We have charged costs to federal awards in accordance with applicable cost principles.
- m. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- n. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- o. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.



Signature

Teresa Davis, Director of Business
Name, Title



Signature

Barbara Van Sweden, Interim Superintendent
Name, Title

FITZGERALD PUBLIC SCHOOLS
Warren, Michigan

**REPORT ON EXPENDITURES
OF FEDERAL AWARDS**

June 30, 2008

FITZGERALD PUBLIC SCHOOLS
Warren, Michigan

REPORT ON EXPENDITURES
OF FEDERAL AWARDS

June 30, 2008

FITZGERALD PUBLIC SCHOOLS

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* * * * *



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

December 5, 2008

Board of Education
Fitzgerald Public Schools
Warren, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Fitzgerald Public Schools*** (the "District") as of and for the year ended June 30, 2008, and have issued our report thereon dated December 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ***Fitzgerald Public Schools***' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Fitzgerald Public Schools'* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance as noted in Section II of this report but no other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 5, 2008.

The District's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Board of Education, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style.

Troy, Michigan



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

December 5, 2008

Board of Education
Fitzgerald Public Schools
Warren, Michigan

Compliance

We have audited the compliance of *Fitzgerald Public Schools* (the "District") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on Fitzgerald Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fitzgerald Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2008-3.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control over compliance that might be significant deficiencies or material weaknesses as defined below. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-3 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fitzgerald Public Schools, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 5, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Fitzgerald Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management, the Board of Education, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Troy, Michigan

FITZERALD PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Program or Award Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue at July 1, 2007 | Adjustments and Transfers | Cash Received/ Payments In Kind | Expenditures | Accrued (Deferred) Revenue at June 30, 2008 |
|--|----------------|-------------------------------|---|---|---------------------------------|--|------------------|--|
| U.S. Department of Education: | | | | | | | | |
| Passed Through the Michigan Department of Education: | | | | | | | | |
| Title I (Major Program) | | | | | | | | |
| 2007-2008 (081530-0708) | | \$ 863,662 | \$ - | \$ - | \$ - | \$ 601,016 | \$ 845,015 | \$ 243,999 |
| 2006-2007 Carryover (061530-0506) | | 82,775 | 82,775 | 24,863 | - | 24,863 | - | - |
| 2006-2007 (071530-0607) | | 754,634 | 602,281 | 208,513 | - | 360,866 | 152,353 | - |
| | 84.010 | <u>1,701,071</u> | <u>685,056</u> | <u>233,376</u> | <u>-</u> | <u>986,745</u> | <u>997,368</u> | <u>243,999</u> |
| Title I Schoolwide Program Planning Grant | | | | | | | | |
| 2006-2007 (061520-0607) | 84.010A | <u>9,000</u> | <u>9,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Title V | | | | | | | | |
| 2007-2008 (080250-0708) | | 10,407 | - | - | - | 2,179 | 10,405 | 8,226 |
| 2006-2007 (070250-0607) | | 5,896 | 2,035 | 583 | 1 | 584 | - | - |
| 2005-2006 (060250-0506) | | 12,051 | 12,051 | - | - | - | - | - |
| | 84.298 | <u>28,354</u> | <u>14,086</u> | <u>583</u> | <u>1</u> | <u>2,763</u> | <u>10,405</u> | <u>8,226</u> |
| Title IID, Enhancing education through technology | | | | | | | | |
| 2007-2008 (084290-0708) | | 8,117 | - | - | - | 4,407 | 8,117 | 3,710 |
| 2006-2007 (074290-0607) | | 7,682 | 7,682 | 4,251 | - | 4,251 | - | - |
| | 84.318 | <u>15,799</u> | <u>7,682</u> | <u>4,251</u> | <u>-</u> | <u>8,658</u> | <u>8,117</u> | <u>3,710</u> |
| Title III Bilingual Grant | | | | | | | | |
| 2007-2008 | 84.365A | <u>78,718</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>50,498</u> | <u>78,718</u> | <u>28,220</u> |
| Title IIA, Improving teacher quality | | | | | | | | |
| 2007-2008 (080520 0708) | | 243,414 | - | - | - | 136,732 | 234,497 | 97,765 |
| 2006-2007 (060520 0607) Carryover | | 86,149 | 86,149 | 22,451 | - | 22,451 | - | - |
| 2006-2007 (070520 0607) | | 179,991 | 119,572 | 21,063 | - | 21,063 | - | - |
| | 84.367 | <u>509,554</u> | <u>205,721</u> | <u>43,514</u> | <u>-</u> | <u>180,246</u> | <u>234,497</u> | <u>97,765</u> |
| Katrina FY 2006 (Elem. And Secondary Ed. Hurricane Relief) | 84.938C | 1,588 | 429 | - | - | - | - | - |
| Total Passed Through the Michigan Department of Education | | <u>2,344,084</u> | <u>921,974</u> | <u>281,724</u> | <u>1</u> | <u>1,228,910</u> | <u>1,329,105</u> | <u>381,920</u> |

FITZERALD PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Program or Award Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue at July 1, 2007 | Adjustments and Transfers | Cash Received/ Payments In Kind | Expenditures | Accrued (Deferred) Revenue at June 30, 2008 |
|---|----------------|-------------------------------|---|---|---------------------------------|--|------------------|--|
| Macomb Intermediate School District: I.D.E.A.: (Cluster) (Major Program) | | | | | | | | |
| Flow-through: | | | | | | | | |
| 2006-2007 | 84.027 | 521,425 | 521,425 | 130,357 | - | 130,357 | - | - |
| 2007-2008 | 84.027 | 538,028 | - | - | - | 436,802 | 538,028 | 101,226 |
| Transition: | | | | | | | | |
| 2006-2007 | 84.027 | 1,412 | 1,412 | - | - | - | - | - |
| Transition B: | | | | | | | | |
| 2007-2008 | 84.027 | 4,500 | - | - | - | 4,500 | 4,500 | - |
| Preschool: | | | | | | | | |
| 2006-2007 | 84.173 | 26,880 | 26,880 | 6,720 | - | 6,720 | - | - |
| 2007-2008 | 84.173 | 25,162 | - | - | - | 21,759 | 25,162 | 3,403 |
| Total I.D.E.A.: (Cluster) | | 1,117,407 | 549,717 | 137,077 | - | 600,138 | 567,690 | 104,629 |
| Drug-free Schools | | | | | | | | |
| 2006-2007 | | 7,425 | 7,425 | 7,425 | - | 7,425 | - | - |
| 2007-2008 | | 7,871 | - | - | - | 7,871 | 7,871 | - |
| Total Drug Free Schools: | 84.186b | 15,296 | 7,425 | 7,425 | - | 15,296 | 7,871 | - |
| Taking Action Managing Emergencies (TAME) | 84.184E | 3,609 | 3,609 | - | - | - | - | - |
| Total Macomb Intermediate School District | | 1,136,312 | 560,751 | 144,502 | - | 615,434 | 575,561 | 104,629 |
| SMTEC, | | | | | | | | |
| Carl Perkins, 2006-2007 | 84.048a | 3,912 | 3,912 | 3,912 | - | 3,912 | - | - |
| Voc Ed CEPD (2007-2008) | 84.048a | 4,051 | - | - | - | 4,051 | 4,051 | - |
| Total SMTEC | | 7,963 | 3,912 | 3,912 | - | 7,963 | 4,051 | - |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | 3,488,359 | 1,486,637 | 430,138 | 1 | 1,852,307 | 1,908,717 | 486,549 |

FITZERALD PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Program or Award Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue at July 1, 2007 | Adjustments and Transfers | Cash Received/ Payments In Kind | Expenditures | Accrued (Deferred) Revenue at June 30, 2008 |
|--|----------------|-------------------------------|---|---|---------------------------------|--|----------------|--|
| Macomb/St. Clair Workforce Development Board, Inc., WIA: | | | | | | | | |
| Continuum Stipends 2007 | | 16,000 | 12,358 | 5,416 | - | 5,416 | - | - |
| Continuum Stipends 2008 | | 16,000 | - | - | - | 11,373 | 14,326 | 2,953 |
| In School Continuum 2007 | | 160,982 | 138,722 | 60,713 | - | 60,713 | - | - |
| In School Continuum 2008 | | 169,031 | - | - | - | 122,781 | 144,057 | 21,276 |
| In School Youth Summer Program 2006 | | 64,352 | 32,992 | 2,042 | - | 2,042 | - | - |
| In School Youth Summer Program 2007 | | 67,570 | 20,454 | 20,454 | - | 20,454 | - | - |
| In School Youth Summer Program 2008 | | 67,570 | - | - | - | - | 23,215 | 23,215 |
| Out of School 2007 | | 116,025 | 100,079 | 26,252 | - | 26,252 | - | - |
| Out of School 2008 | | 120,494 | - | - | - | 89,492 | 120,494 | 31,002 |
| Out of School Program Admin 2007 | | 13,105 | 12,655 | 3,515 | - | 3,515 | - | - |
| Out of School Program Admin 2008 | | 15,093 | - | - | - | 14,447 | 14,447 | - |
| TOTAL U.S. DEPARTMENT OF LABOR | 17.255 | 826,222 | 317,260 | 118,392 | - | 356,485 | 316,539 | 78,446 |
| Passed Through the Michigan Department of Education: | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | |
| Breakfast (81970) | 10.553 | 131,249 | - | - | - | 119,675 | 132,475 | 12,800 |
| Breakfast (71970) | 10.553 | 58,789 | 58,789 | 5,373 | - | 5,373 | - | - |
| Total Servings, Section 4:(81950) | 10.555 | 75,373 | - | - | - | 71,449 | 75,373 | 3,924 |
| Total Servings, Section 4:(71950) | 10.555 | 61,451 | 61,451 | 3,376 | - | 3,376 | - | - |
| Free and reduced, Section 11(81960) | 10.555 | 518,303 | - | - | - | 489,622 | 518,303 | 28,681 |
| Free and reduced, Section 11(71960) | 10.555 | 399,179 | 399,179 | 22,210 | - | 22,210 | - | - |
| Summer Food Service (2006-2007) | 10.559 | 9,598 | 9,598 | - | - | - | - | - |
| Summer Food Service (2007-2008) | 10.559 | 13,487 | - | - | - | 13,487 | 13,487 | - |
| Total Child Nutrition Cluster | | 1,267,429 | 529,017 | 30,959 | - | 725,192 | 739,638 | 45,405 |

FITZERALD PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Program or Award Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue at July 1, 2007 | Adjustments and Transfers | Cash Received/ Payments In Kind | Expenditures | Accrued (Deferred) Revenue at June 30, 2008 |
|---|----------------|-------------------------------|---|---|---------------------------------|--|---------------------|--|
| Food Distribution Program: Entitlement Commodities 2007/2008 | 10.550 | 51,024 | - | - | - | 51,024 | 52,292 | 1,268 |
| Total Food Distribution Program | | 51,024 | - | - | - | 51,024 | 52,292 | 1,268 |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | 1,318,453 | 529,017 | 30,959 | - | 776,216 | 791,930 | 46,673 |
| Total federal awards | | \$ 5,633,034 | \$ 2,332,914 | \$ 579,489 | \$ 1 | \$ 2,985,008 | \$ 3,017,186 | \$ 611,668 |

FITZGERALD PUBLIC SCHOOLS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Fitzgerald Public Schools (the "District") and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

3. GRANT SECTION AUDITORS' REPORT

Management has utilized Form R-7120 in preparing the Schedule of Expenditures of Federal Awards. Unreconciled differences are due to timing and have been disclosed to the auditor.

4. ENTITLEMENT COMMODITIES

The District reported receipts of \$51,024 and expenditures of \$52,292 in entitlement commodities in the Schedule of Expenditures of Federal Awards in order to reconcile to the Recipient Entitlement Balance Report received from the Michigan Department of Education.

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant Deficiency (ies) identified
not considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements
noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant Deficiency (ies) identified
not considered to be material weaknesses? X yes _____ none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? X yes _____ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.027 & 84.173
84.010

IDEA Cluster
Title I

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes _____ no

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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2008-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the District has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. We noted certain adjustments that were required in the areas of cash and capital assets in order for the District to provide governmental-wide financial statements. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the District's decision to rely partially on the auditors rather than to incur the expense of obtaining the resources required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of
Responsible**

Officials: The District has evaluated the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the District at this time to outsource a portion of this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation. The District prepared a significant portion of the financial statements, but relied on its auditors for assistance in certain areas.

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Finding 2008-2 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the District's unique circumstances.

Condition: As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. Specifically we noted that there are individuals that have the ability to (1) Authorize ACH transfers, perform bank reconciliations and have access to the general ledger and (2) Setup new vendors and process accounts payable without a review from another appropriate employee.

Cause: Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the District's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the District's internal control structure, and cannot be relied upon as part of management's systems to deter or detect fraud and abuse.

Effect: As a result of this condition, the District lacks the proper segregation of duties. While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control

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by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

**View of
Responsible**

Officials: The District will evaluate the cost versus benefit of the lack of segregation of duties and implement additional controls to minimize risk.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2008-3 Allocation and Certification of Payroll Expenditures – IDEA and Title I

- Criteria:** Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports or a statistical sampling system that has been approved by the cognizant Federal agency. The Circular also requires that where employees are expected to work solely on a single federal award, charges for their salaries must be supported by at least semi-annual certifications that they worked solely on that program for the period covered by the certification.
- Condition:** During the audit for the year ended June 30, 2008, we noted several employees, who were supposed to be charged 100% to the grant, had their time allocated to the grant based on a predetermined budgeted percentage.
- Cause:** Internal controls were not in place to detect that there was an employee, working on multiple activities, who failed to support the distribution of their salary or wages via a personnel activity report.
- Effect:** This condition increases the risk that the District could report an incorrect amount for expenditures related to federal grant programs.
- Recommendation:** We recommend that the District require that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports and that the reports are periodically reviewed by responsible personnel.

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**View of
Responsible
Officials:**

The District requires that when employees work on multiple activities and a portion of their salary is funded by Federal grants, that the employee maintains appropriate time and activity records. The District provides a form to facilitate this. The District believes this condition was an isolated incident. The employee involved was counseled as to the proper recording of their time and activity. The District will now require that the activity records are reviewed semi-annually by management.

SECTION IV – PRIOR YEAR FINDINGS

**Finding 2007-3 Allocation and Certification of Payroll Expenditures – Workforce
Investment Act**

Condition: During the audit for the year ended June 30, 2007, we noted an employee, who was not charged 100% to the grant, had their time allocated to the grant based on a predetermined budgeted percentage.

Current Status: The finding above appears to be uncorrected as it is also noted in Finding 2008-3 “Allocation and Certification of Payroll Expenditures - IDEA and Title I.”

Finding 2007-4 Proper Completion of Production Reports – Child Nutrition Cluster

Condition: During the year ended June 30, 2007, all columns of the production records form were not consistently completed.

Current Status: The District has contracted with an outside food service provider who completes the reports while the District performs monitoring functions. This issue appears to have been resolved in the 2007/2008 fiscal year.

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